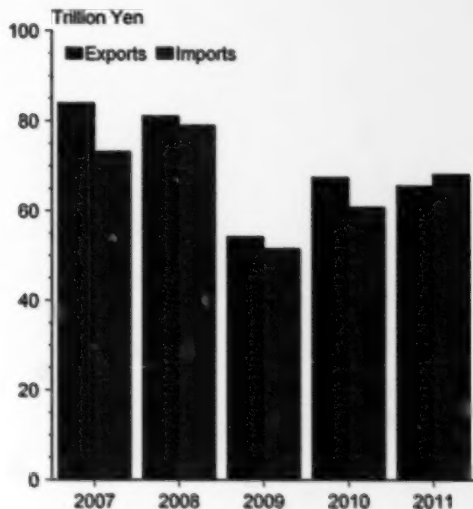


## Impact of Disaster on Japan's Trade Unclear

By Dan Schrier

The recent sinking of a Japanese "ghost ship" in the Gulf of Alaska serves as a reminder that it has been over a year since the devastating earthquake and subsequent tsunami struck Japan. The effect of the disaster on Japanese goods exports and imports is difficult to gauge, but at first blush, it appears that it was far less severe than that of the economic downturn that resulted in both exports from and imports to Japan losing approximately a third of their value between 2008 and 2009. By comparison, in 2011, exports from Japan fell by less than 3%, while imports climbed 12%.

At first glance, it appears that the global economic downturn affected Japan's trade far more than the 2011 earthquake and tsunami



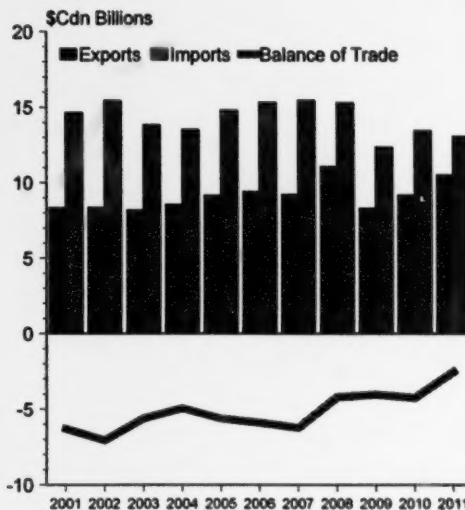
Source: Japan Statistics Bureau

However, it is impossible to say that the aftermath of the disaster did not have a severe impact on Japan's trade. While there may not have been a substantial decline in exports from Ja-

pan, it is possible that the disaster delayed recovery from the economic downturn and that, in its absence, exports would have climbed back to 2008 levels, or perhaps beyond. In fact, given that there was growth in merchandise exports of over 24% between 2009 and 2010, indicating that the Japanese economy was starting to recover from the economic downturn, it seems that this is a likely scenario.

In terms of Canadian trade in goods with Japan, in 2011, there was a 16% jump in shipments from Canada to Japan and a 3% decline in goods moving the other direction. Canada's merchandise trade deficit with Japan shrank 44% to \$2.4 billion, its lowest level since 1997.

Canada's trade deficit with Japan has been trending down over the last few years



Source: Statistics Canada

Among the provinces, only Prince Edward Island (-31%) experienced a drop in exports to Japan in 2011. Newfoundland and Labrador

saw the strongest growth in shipments to Japan (+66%), followed by Saskatchewan (+40%). British Columbia's exports to Japan grew 10% between 2010 and 2011.

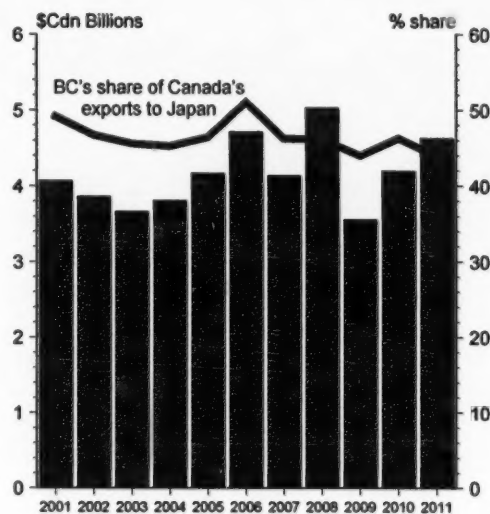
The increases were driven by similar groups of commodities across the country and could be related to domestic shortages in Japan resulting from the disaster. In Newfoundland and Labrador, iron and copper ores and concentrates were responsible for most of the increase. Copper ores and concentrates were also a significant contributor to the increase in exports from both Ontario and British Columbia. Higher exports of wheat, barley, and rape and colza seeds were the primary reason for the growth in exports from the Prairie provinces. Seafood products contributed significantly to the growth in exports of the Atlantic provinces, excluding Prince Edward Island, where a 38% drop in shipments of seafood was the main factor driving the province's overall slump in exports to Japan. Most of the growth in seafood shipments was driven by crustaceans, particularly snow crabs. Prince Edward Island exports relatively few crabs compared to the other Atlantic provinces and saw lobster exports to Japan slump dramatically in 2011.

British Columbia also experienced a decline in exports of seafood to Japan as shipments of fresh (-65%) and frozen salmon (-87%) and herring roe (-51%) plunged from 2010 to 2011. There was also a large drop in shipments of unwrought aluminum (-20%), another significant BC export to Japan. However, strong growth in exports of other goods more than compensated for the declines in seafood and aluminum shipments.

As mentioned above, copper ores and concentrates (+36%) saw a substantial boost in exports to Japan. The largest contributor to BC's 10%

overall expansion in shipments to Japan was coal, which saw exports climb 19%. However, the growth was due entirely to an increase in price, as quantities shipped actually fell 13%. Given that most of BC's coal shipments are comprised of metallurgical coal, which is mainly used in the production of steel, and the fact that some of Japan's steel mills were damaged by the earthquake (as well as other plants that use steel as an input, such as auto manufacturers), it is not unexpected that the volume of metallurgical coal shipments to Japan would experience a decline.

British Columbia's exports to Japan continued to climb in 2011

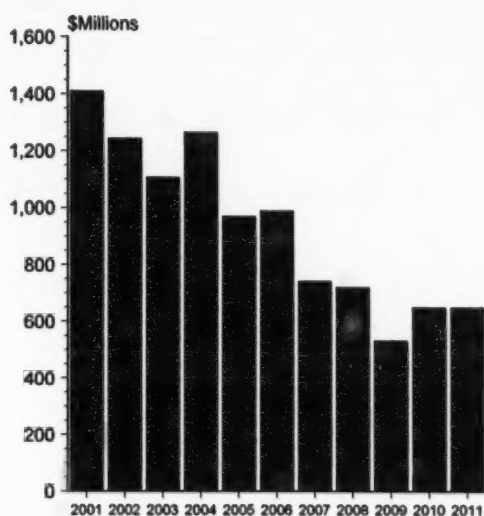


Source: Statistics Canada

More surprising is the fact that exports of lumber from BC to Japan were basically unchanged from 2010 to 2011. With the devastation that occurred following the earthquake and tsunami, one may have expected that there would have been a substantial increase in Japanese imports of lumber products to use in rebuilding efforts, but this does not appear to have happened. There have been delays in reconstruc-

tion of the houses and other buildings swept away by the tsunami, due to both the massive cleanup that was required, as well as a lack of a rebuilding strategy from the Japanese government. The overwhelming size of the task is one reason for the delay in developing a strategy, but there is also the difficulty of ensuring that the rebuilt communities will have sustainable economies. Many of the fishing villages wiped out by the tsunami were struggling prior to the disaster due to declining fish stocks. Simply rebuilding them will not solve their economic problems, particularly since the tsunami damaged the habitat of the shellfish in that area, further reducing the available catch.

BC lumber exports to Japan were virtually unchanged in 2011



Source: Statistics Canada

It is possible that there will be a significant boost in demand for lumber products in the next few years, once the reconstruction efforts begin in earnest and BC may benefit with an increase in lumber shipments to Japan. However, there is no guarantee that BC will be a

significant source of that lumber as it will face competition from countries such as Russia.

As Japan continues to rebuild and its economy once again gains steam, there may be positive repercussions for BC exports. Another development that could positively influence BC's trade with Japan is the possibility of a free trade agreement between Canada and Japan. Recently, a joint study by the governments of Canada and Japan recommended pursuing a comprehensive free trade agreement. The study suggested that such an agreement could increase two-way trade between the two countries by approximately \$11 to \$13 billion (US dollars).<sup>1</sup>

Such an agreement will take years to develop, but if it goes ahead, there could be significant benefits for British Columbia, particularly since BC is the largest source of Canadian merchandise exports to Japan (44% in 2011 – Alberta ranked second with only 18%). There would also be more opportunities for trade in services as well as investment. There are many barriers to overcome before a free trade agreement is realized, particularly with regard to trade in automobiles. Canada's automobile manufacturers have been resistant to free trade with South Korea and are likely to have the same reservations to a deal with Japan. However, if the two countries can clear those hurdles, both would likely reap significant economic benefits.

<sup>1</sup> "Report of the Joint Study on the Possibility of a Canada-Japan Economic Partnership Agreement," March 7, 2012,

[http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/japan-japon/study-report\\_rapport-etude.aspx](http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/japan-japon/study-report_rapport-etude.aspx) (accessed April 11, 2012).

